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CENTRAL INTELLIGENCE AGENCY
Office of Current Intelligence
8 October 1963

CURRENT INTELLIGENCE MEMORANDUM

SUBJECT: Costs of the Yemen War to Egypt*

1. Egypt's involvement in Yemen is costing the Nasir regime an estimated $85 to $110 million per year. This total includes, however, about $25 million that would have been spent even if the troops sent to Yemen had remained in Egypt. Included in the costs are ammunition expenditures, maintenance requirements for 1,000 or so trucks, 100 tanks, and other vehicles, losses of equipment in military operations, "bonus" pay to soldiers for Yemeni service, and petroleum consumption. The Egyptians are also paying almost all Yemeni Government salaries and services, estimated at $10 million per year, plus payments to certain tribes in return for their neutrality. These tribal payments may run as high as $30 - $40 per man each month for as many as 3,000 tribesmen--roughly one million dollars per year.

2. Yemeni war expenditures probably have severely strained Egypt's serious hard-currency foreign exchange problems. Already, the hard-currency trade deficit for the first six months of 1963 is estimated at $30 million, and foreign debts due in the last six months of this year total about $220 million. In an effort to meet current claims on foreign exchange, foreign transfers have been delayed and compensation commitments to the UK not honored. Commercial arrears are mounting, and juggling of credits to meet payments has become common. Foreign bankers have become wary and are tightening credit. Nasir has not yet paid his $200,000 share of the costs for the first two months of the UN operation in Yemen. He nevertheless has promised an additional $200,000 for the second two-month period which ends on 4 November.

*Based on contributions from ORR/I/NEA and ORR/N/FW

3. Egyptian financial authorities are running out of new sources of foreign loans. Needing about $120 million in new foreign assistance for the coming year, they have approached the UK, West Germany, and the US--thus far without success. The USSR has not made any hard currency available and is unlikely to do so.

4. Funds from Egyptian sources to finance a continuation of the involvement in Yemen cannot be generated without serious cutbacks in development plans. The $112.5 million Egypt drew last year from the IMF Stabilization Loan Fund--now exhausted--together with other foreign assistance--i.e., loans from foreign commercial banks and the Kuwaiti Government--has sheltered the domestic economy from the impact of the venture in Yemen. There has been no evidence of inflation or a reduction in development expenditures. Now, however, the government evidently is faced with a crisis. Development planners are taking a close look at programs for the fourth year (1963/64) of Egypt's Five Year Plan in an effort to pare expenses, and previous guarantees of full payment to local and foreign owners of nationalized companies suddenly have been abrogated by an announcement that a maximum of $34,500 per shareholder will be paid. If sizable foreign assistance is not forthcoming, and if Nasir insists on continuing his Yemen adventure, Egypt will be forced to impose far more stringent import controls, cut deeply into foreign exchange expenditures for development projects, and probably default on a number of foreign loans.

5. Nasir has privately admitted his concern over the cost and the prolongation of the UAR commitment in Yemen. He almost certainly hopes for some settlement which will allow him to withdraw without loss of face and which will insure a continuation of a republican regime there. However, there has been no indication thus far that he is willing to accept any compromise that might sacrifice either of these considerations.